

A meeting of the Executive Committee of the Board of Governors of the Federal Reserve System was held in Washington on Friday, December 13, 1935, at 11:30 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Thomas, Vice Chairman
Mr. Miller
Mr. James

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary

The Committee acted upon the following matters:

Letters to Mr. Delano, Deputy Chairman of the Federal Reserve Bank of Richmond, and Mr. Sargent, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the respective banks on December 12, 1935, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated December 10, 1935, from Mr. Paulger, Chief of the Division of Examinations, recommending that Mr. C. A. Strahorn, an assistant examiner, be granted an additional leave of absence with pay during the current year for a period of approximately eleven days. The reason for the recommendation was that in October, Mr. Strahorn lost his wife and his absence in that connection, together with leave previously taken, had exceeded the thirty day annual leave allowance by six hours, and, in addition, the present year's examination work will be completed on or about December 21 and, as it will not be possible to utilize his services elsewhere, he will be required to take enforced

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leave until the end of the year.

Approved unanimously.

Letter to Mr. J. W. McCoy, Cashier, The First National Bank of Ashland, Ashland, Oregon, reading as follows:

"This refers to your letter of November 8, 1935, advising that The First National Bank of Ashland contemplates discontinuing the active business of its trust department and requesting advice as to whether, if this is done, the bank may retain the permit issued to it by the Board of Governors of the Federal Reserve System when it was granted permission to exercise trust powers in order that it may be able to reopen such department should the occasion for doing so later arise. You have also stated that the Superintendent of Banks of the State of Oregon has advised you that it will be necessary for the State banking department to make an examination of the bank's trust department in the event that the active business thereof is discontinued, and you have requested further advice as to whether the bank should submit to such an examination in view of the amendment to the third paragraph of section 11(k) of the Federal Reserve Act made by section 342 of the Banking Act of 1935.

"You are advised that the Board does not object to the retention by The First National Bank of Ashland of the permit heretofore granted to it by the Board authorizing the exercise of trust powers. You are also advised that the Board has taken the position that, under the amendment referred to above, State banking authorities are not authorized to examine the books, records and assets of the trust departments of national banks which possess trust powers, although such authorities are given access to reports of examination made by the Comptroller of the Currency in so far as the reports relate to such trust departments. In the circumstances, the banking department of the State of Oregon would have no authority to make a compulsory examination of the books, records and assets of the trust department of The First National Bank of Ashland. However, as stated in a circular the Comptroller of the Currency addressed to you under date of September 6, 1935, the amendment does not prohibit a national bank from 'permitting an inspection of its records by any one it desires.' Accordingly, since you have advised that The First National Bank of Ashland has deposited securities with the State authorities and since it is assumed that you desire to obtain a release of such securities, it is suggested that you may wish to consider the advisability of permitting the examination in question in order to expedite the release of such securities.

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"In the event that The First National Bank of Ashland, upon further consideration, should desire to surrender its right to exercise trust powers, your attention is invited to section 11(k) of the Federal Reserve Act which is incorporated as section I of the inclosed copy of the Board's Regulation F covering the exercise of trust powers by national banks. You will note that the Board in certain circumstances is authorized to terminate the right of national banks to exercise such powers, and the procedure which the Board has prescribed in such cases is set forth in section XIV of Regulation F."

Approved unanimously.

Letter to the Federal reserve agents at all Federal reserve banks, reading as follows:

"The Board has recently had its Division of Examinations make a review of the condition of State member banks in which the Reconstruction Finance Corporation has a capital investment. In connection with this review you were asked to advise which banks could, in your opinion, retire with safety at this time all or a substantial portion of the capital held by the Corporation.

"The review developed that certain banks were in a position to retire all or part of the capital investment held by the Reconstruction Finance Corporation and still have capital in an amount adequate for the protection of the depositors and other customers of the bank. As recovery continues to progress and further corrections are made of the conditions which weakened the capital structure of the banks, there will undoubtedly be other cases where retirement of excess capital will be justified. The Board, therefore, feels it desirable to indicate at this time its views regarding the general policies which it feels should govern the retirement of preferred stock and capital notes and debentures of State member banks, whether held by the Reconstruction Finance Corporation or by local investors.

"In the letter X-9048 (December 15, 1934) the Board outlined the procedure to be followed by the Federal Reserve Agents in passing upon proposed reductions of preferred stock and capital notes and debentures by State member banks. In passing upon such proposed reductions the Board requests that the Federal Reserve Agents give full consideration to the capital ratio of the bank, the general type of assets held by the bank, its investment in fixed assets, quality of investment securities, trend of deposits, size and activities

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"of trust department, competency of management and other tangible and intangible factors bearing on the adequacy of the amount of net sound capital of the bank. The Board believes that if, after consideration of the various factors enumerated above, it appears that a bank is in a position to retire with safety part or all of the preferred stock or capital notes or debentures held by the Reconstruction Finance Corporation or local investors, it should be permitted to do so. It has been indicated, however, that there is a tendency among some banks, in view of improving conditions and a surplus of liquid assets, to retire prematurely part of the capital structure and the Board is strongly of the opinion that such action should not be taken until it is clearly demonstrated that the capital proposed to be retired is no longer needed for the protection of the depositors or in the conduct of the bank's business.

"It is, of course, desirable that local investors acquire as early as possible the Reconstruction Finance Corporation's holdings of capital in banks. While the Board does not feel that it would be advisable at this time for the Federal Reserve Agents to undertake a campaign to promote such transfers to local interests, it desires that such action be encouraged in particular cases when such transfers appear to be practicable."

Approved unanimously.

Letter to Mr. Hoxton, Federal Reserve Agent at the Federal Reserve Bank of Richmond, reading as follows:

"Receipt is acknowledged of your letter of October 8, 1935, and its inclosures, relating to the holding company affiliate status of Jefferson Standard Life Insurance Company, Greensboro, North Carolina.

"Pursuant to the request of that company, the Board has determined that Jefferson Standard Life Insurance Company is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935. Accordingly, that company is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

"Inclosed herewith is a letter of advice to Jefferson Standard Life Insurance Company which you are requested to transmit to that company. A copy of the letter is also inclosed for your files. If you have not already done so, it may be desirable for

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"you to call to the specific attention of the company and the Security National Bank, Greensboro, North Carolina, the fact that the Board's action does not affect the holding company affiliate status of Jefferson Standard Life Insurance Company for the purposes of section 23A of the Federal Reserve Act.

"As you will note, the Board expressly reserves the right to make a further determination of this matter at any time on the basis of the then existing facts. In this connection it is requested that you advise the Board if, at any time, you believe that this matter should again be considered by it."

Approved unanimously, together with
a letter to the Jefferson Standard Life
Insurance Company, Greensboro, North
Carolina, reading as follows:

"This refers to your company's request that the Board determine that it is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935.

"The Board understands that your company was organized and is operated for the purpose of conducting a life insurance business; that your company owns 97 per cent of the stock of the Pilot Life Insurance Company, which is likewise engaged in the life insurance business; that your company owns 21,331 and the Pilot Life Insurance Company owns 11,824 of the 40,000 outstanding shares of common stock of the Security National Bank, Greensboro, North Carolina, and that the Reconstruction Finance Corporation owns all of the 20,000 outstanding shares of preferred stock of such bank; that your company owns 2,005 and the Pilot Life Insurance Company owns 2,005 of the 10,000 outstanding shares of common stock of the Guilford National Bank, Greensboro, North Carolina, and that your company also owns other bank stock but does not manage or control any other bank; that your company's investment in bank stock constitutes a relatively insignificant portion of its assets; and that your company was not organized and is not operated for the purpose of controlling banks.

"In view of the above facts, the Board has determined that your company is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935, and, accordingly, your company is not a holding company affiliate for any

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"purposes other than those of section 23A of the Federal Reserve Act.

"If, however, your company acquires control over any other bank or if the facts should, at any time, otherwise differ from those set out above to an extent which would indicate that your company might be engaged as a business in holding the stock of, or managing or controlling, banks, this matter should again be submitted to the Board for its determination. The Board reserves the right to make further determination of this matter at any time on the basis of the then existing facts."

Letter to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"In connection with the consideration of the application of 'Farmers Loan and Trust Company', Sioux City, Iowa, for a voting permit entitling it to vote the shares of stock in certain subsidiary member banks which it holds as trustee of the 'James F. Toy Bank Stock Trust', the Board has determined that the applicant is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935, and, accordingly, the applicant is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

"Inclosed herewith is a letter to the applicant advising it concerning the Board's action in this matter. If, for any reason, you believe that this matter should be reconsidered by the Board, please communicate with the Board at once. Otherwise you are requested to transmit the inclosed letter to the applicant. A copy of the letter is also inclosed for your files.

"As you will note, the Board expressly reserves the right to make a further determination of this matter at any time on the basis of the then existing facts. In this connection it is requested that you advise the Board if, at any time, you believe this matter should again be considered by it."

Approved unanimously, together with
a letter to the "Farmers Loan and Trust Company", Sioux City, Iowa, reading as follows:

"This refers to the application of your trust company for a voting permit entitling it to vote shares of stock of the

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"following subsidiary member banks: 'The First National Bank of Charter Oak', Charter Oak, Iowa; 'The First National Bank of Fonda', Fonda, Iowa; 'The Toy National Bank of Sioux City', Sioux City, Iowa; 'The First National Bank of Hudson', Hudson, South Dakota; 'The First National Bank of Emerson', Emerson, Nebraska; and 'The Wakefield National Bank', Wakefield, Nebraska.

"It is understood that by a deed of trust dated May 28, 1932, Mr. James F. Toy created an irrevocable trust known as the 'James F. Toy Bank Stock Trust' and transferred to your trust company as trustee of such trust various assets, including shares of stock of certain member banks. In a letter addressed to the Federal Reserve Agent at the Federal Reserve Bank of Chicago under date of April 17, 1934, the Board ruled that if your trust company held under the deed of trust more than 50 per centum of the outstanding number of shares of the stock of any member bank or more than 50 per centum of the number of shares of the stock of any such bank voted for the election of directors at the preceding election, your trust company was a holding company affiliate of such bank or banks and the stock of such bank or banks owned or controlled by it, either in its capacity as trustee or otherwise, might not validly be voted unless your trust company first obtained from the Board a voting permit under authority of section 5144 of the Revised Statutes.

"The definition of a 'holding company affiliate' contained in section 2(c) of the Banking Act of 1933 was amended by section 301 of the Banking Act of 1935 by the addition of a final paragraph which provided that, notwithstanding the terms of the definition, the term 'holding company affiliate' should not include (except for the purposes of section 23A of the Federal Reserve Act, as amended) any corporation which is determined by the Board of Governors of the Federal Reserve System not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies.

"It is understood that at the present time your trust company does not own or control in its corporate, as distinguished from a fiduciary, capacity, any shares of stock of any bank, banking association, savings bank, or trust company, but that as trustee it holds a majority of the shares of capital stock of each of the six member banks listed above and also a controlling interest in the stock of each of five nonmember banks.

"After careful consideration of the terms of the deed of trust under which shares of stock of the above-mentioned banks are held by your trust company as trustee and of all other pertinent information now available to it, the Board has determined that your trust company is not engaged, directly or

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"indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935, and, therefore, it is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act. Accordingly, it is not necessary for it to obtain a voting permit in order to vote the stock which it owns or controls of any of the above-named member banks and, on this basis, the Board will give no further consideration to its application for such a permit.

"If, however, your trust company acquires control over any other bank, or if the facts should at any time otherwise differ from those set out above to an extent which would indicate that your trust company might be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, this matter should again be submitted to the Board. The Board reserves the right to make a further determination of this matter at any time on the basis of the then existing facts."

Telegram to Mr. Peyton, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, authorizing him, subject to the condition contained in the telegram, to issue a limited voting permit to the "Northwest Bancorporation", Minneapolis, Minnesota, entitling such organization to vote the stock which it owns or controls of the "Spokane and Eastern Trust Company", Spokane, Washington, at any time prior to March 1, 1935, to act upon a proposal or proposals to consolidate such bank and First National Bank of Seattle, Seattle, Washington, under the charter of First National Bank of Seattle and under the title of Seattle-First National Bank, and to take such further action as shall be necessary to effect such consolidation, provided that all action taken shall be in accordance with a plan or plans approved by the appropriate supervisory authorities and satisfactory to the Federal Reserve Agent at the Federal Reserve Bank of San Francisco.

Approved unanimously.

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Letter to Mr. Walsh, Federal Reserve Agent at the Federal Reserve Bank of Dallas, reading as follows:

"This refers to the voting permit applications of 'Republic National Bank and Trust Company of Dallas' and 'Republic National Company', both of Dallas, Texas.

"It has been noted that in your letter of November 7, 1935, you state that the solvency of Republic National Company is so seriously questionable that you are unwilling to recommend at this time that a permanent voting permit be granted to Republic National Company, but that you do recommend, with the concurrence of your Executive Committee, that limited voting permits be granted to the applicants entitling them to vote at the 1936 annual meeting of shareholders of 'First National Bank in Honey Grove', Honey Grove, Texas.

"After considering such applications, the Board is unwilling to authorize the issuance of general voting permits at this time but authorizes you to issue limited voting permits to such applicants, subject to the condition stated below, entitling each of them to vote the stock which it owns or controls of First National Bank in Honey Grove, Honey Grove, Texas, for the following purposes:

To elect directors of such bank at the annual meeting of shareholders, or at any adjournments thereof, at any time prior to April 1, 1936, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank.

"The permits shall be issued only after you have received advice from the applicants, or other information satisfactory to you, showing

(a) That Republic National Bank and Trust Company of Dallas and the applicants' subsidiary national bank have complied, in so far as in your judgment is practicable, with the recommendations or suggestions of the Comptroller of the Currency based upon the reports of examinations of such banks made to him pursuant to authority conferred by law;

(b) That each of the applicants' subsidiary State banking institutions has complied, in so far as in your judgment is practicable, with the recommendations or suggestions of the appropriate State supervisory authorities based upon the reports of examinations of such bank made to them pursuant to authority conferred by law.

"Please have the permits authorized herein prepared by counsel for your bank in accordance with the form heretofore used. Upon the issuance of such permits please forward to the Board a

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"copy of each permit and a copy of any letters, telegrams or memoranda submitted by the applicants or their subsidiary banks, or received from any other source, in response to any request which you deem necessary in connection with the foregoing condition, and advise the Board as to the facts which satisfied such condition.

"If the applicants desire to vote the stock which they own or control of their subsidiary member bank for any purpose other than those set forth above, it will be necessary that the Board be furnished at the earliest date practicable with the necessary details of the plan or matters to be voted upon, together with your recommendations concerning any additional conditions which should be prescribed in connection with the issuance of special limited voting permits for any such purpose. A request for such special permits may be considered as a matter separate and distinct from the issuance of the limited voting permits herein authorized."

Approved unanimously.

Letter to Mr. J. B. Holbrook, Assistant Cashier, The Farmers National Bank, Owenton, Kentucky, reading as follows:

"Reference is made to your letter of November 30 in regard to the establishment by the Board of machinery for increasing reserve requirements of member banks. For your ready reference in this connection there is inclosed a copy of revised Regulation 'D' recently adopted by the Board of Governors to become effective January 1, 1936. The regulation as you will note points out that the Board may change the reserve requirements, within certain limits, in accordance with the amendment to the Federal Reserve Act contained in the Banking Act of 1935, but such action has not been taken by the Board. In this connection you will no doubt be interested in the inclosed statement which was issued recently by the Chairman of the Board. The Board has been studying the situation of member banks with respect to their reserve balances and very careful consideration will be given to the possible effects of any change in reserve requirements before such action is taken."

Approved unanimously.

Letter to the governors of all Federal reserve banks, reading as follows:

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"Inclosed is a proof copy of the 1936 edition of Form 34, daily 'Balance Sheet of Federal Reserve Bank', as returned to the printer. Most of the changes made are self-explanatory.

"It will be noted that the reserve block on the liability side of the revised form provides only for reserves for self-insurance and reserves for losses not elsewhere provided for. All reserves carried by the bank other than those for which specific provision has been made on Form 34 should be combined and shown against the caption 'Reserves for losses not elsewhere provided for'. Should any of the reserves reported against the caption 'Reserves for losses not elsewhere provided for' have been set up for a specific purpose, the books of the bank should show the amount of each such reserve. Any reserves held against assets reported against the item 'Claims account closed banks' should be shown as a deduction from the amount reported against such item and any losses charged off on such claims should be charged to such reserves.

"In order to obviate the necessity of carrying bills and securities among the earning assets of the bank for any extended period after both interest and principal have become due and unpaid, a new caption 'Bills and securities past due 3 months or more' has been added in the miscellaneous assets block. Any reserves set aside to take care of losses on bills and securities past due three months or more should be shown as a deduction from the amount of such bills and securities. The amount of industrial advances, if any, included in the item 'Bills and securities past due 3 months or more' and the reserve deducted therefrom should be indicated in an appropriate footnote.

"Losses on industrial advances and commitments should be charged to reserves, current earnings, or surplus in the following order: (a) to reserves set aside out of net earnings on industrial advances and commitments, (b) to current earnings on industrial advances and commitments, and (c) to surplus (Section 13b) in the proportion that the average daily amount of surplus (Section 13b) bears to the average daily amount of industrial advances and commitments outstanding and the balance to surplus (Section 7).

"It will be noted that the 'Primary, secondary and additional collateral and securities held' block on the reverse side of Form 34 has been simplified somewhat, with a view to eliminating some of the difficulties that have been experienced with the existing classification."

Approved unanimously.

Memorandum dated December 11, 1935, from Mr. Wyatt, General

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Counsel, recommending that the Board not renew its subscription to the Corporation Trust Company's Congressional Legislative Service for the Second Session of the 74th Congress convening January 3, 1936, inasmuch as practically the same service is being obtained more promptly from the official document rooms at the Capitol.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morril

Secretary.

Approved:

W. C. ...

Chairman.